

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 IO-13 ISO-00 OIC-02 AGRE-00
CEA-01 CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-10
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
AID-05 SS-15 STR-07 ITC-01 TRSE-00 USIA-06 SP-02
SOE-02 OMB-01 DOE-11 /129 W
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P R 151749Z FEB 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 3187
INFO AMEMBASSY TOKYO
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 02626

USEEC ALSO FOR EMBASSY

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DEPARTMENT ALSO PASS STR

E.O.11652: GDS
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SUBJECT: UK CONSIDERING STEPS TO CONTROL IMPORTS OF
JAPANESE CARS

REF: LONDON 2497

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SUMMARY. THE UK GOVERNMENT IS GIVING INCREASINGLY SER-
IOUS CONSIDERATION TO STEPS THAT MIGHT BE TAKEN TO IN-
-SURE THAT IMPORTS OF JAPANESE CARS DO NOT INCREASE SIG-
NIFICANTLY OVER 1977 MARKET SHARE LEVELS. IN THE FACE
OF RISING JAPANESE CAR IMPORTS AND THE ABSENCE OF PUBLIC
ASSURANCES FROM JAPAN'S CAR INDUSTRY THAT EXPORTS WILL
BE VOLUNTARILY HELD TO 10 PERCENT OF UK MARKET, GOVERN-

MENT OFFICIALS ARE CONSIDERING OPTIONS BEYOND PUBLIC AND PRIVATE WARNINGS, INCLUDING CONSULTATION OR SAFEGUARD ACTION UNDER 1962 UK - JAPAN COMMERCE TREATY. DURING CALL ON ANOTHER MATTER, EMBASSY E/C MINISTER UNDERScoreD TO DEPUTY SECRETARY GRAY OF DEPARTMENT OF TRADE THE SERIOUSNESS WITH WHICH THE U.S. WOULD VIEW UK ACTION IN CONFLICT WITH ITS INTERNATIONAL COMMITMENTS OR WHICH WOULD FURTHER ENCOURAGE WORLD PROTECTIONIST PRESSURES. END SUMMARY.

1. SINCE EMBASSY'S LATEST REPORT (REFTEL), THERE HAS BEEN A NOTICEABLE INCREASE IN THE STRENGTH OF FEELING WITHIN THE GOVERNMENT THAT SOMETHING FURTHER NEEDS TO BE DONE, BOTH ACTUALLY TO CHECK THE INCREASE IN JAPANESE CAR IMPORTS AND TO SHOW THE PUBLIC THAT THE GOVERNMENT IS NOT IMPOTENT. ACCORDING TO ROBIN GRAY, THE IMMEDIATE NEED IS FOR FIRM, DIRECT ASSURANCES FROM JAPAN THAT CAR IMPORTS WILL BE HELD ROUGHLY TO 10 PERCENT OF THE UK MARKET IN 1978. MINISTERS "NEED A HEADLINE" TO COUNTER-ACT FRONT-PAGE STORIES THAT JAPAN HAS REJECTED UK PLEAS ON CAR IMPORTS. IN THE LONGER RUN, THE NEED IS SEEN TO ENSURE THAT THERE IS NO SIGNIFICANT INCREASE IN JAPANESE IMPORTS THAT WOULD FURTHER ADD TO THE CURRENT DIFFICULTIES OF RESTRUCTURING BRITISH LEYLAND TO MAKE IT MORE COMPETITIVE.

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2. DURING FEBRUARY 14 MEETING WITH GRAY, E/C MINISTER POINTEDLY QUESTIONED LOGIC OF ACTING AGAINST CAR IMPORTS WHEN THE PROBLEM IS PRIMARILY FAILURE OF DOMESTIC PRODUCTION TO KEEP UP WITH DEMAND, I.E. BRITISH LEYLAND HAS BEEN PLAGUED WITH PRODUCTION PROBLEMS AS WELL AS QUESTIONS OF COMPETITIVENESS, AND EVEN THE SUCCESSFUL FORD OPERATION IS NOT ABLE TO KEEP UP WITH DEMAND. IN THE RECENT PAST WHEN JAPAN BACKED OFF, THE VACUUM WAS FILLED BY EUROPEAN PRODUCERS. WOULDN'T THIS HAPPEN AGAIN? GRAY ACKNOWLEDGED THIS, BUT SAID THE PROBLEM OF JAPANESE SALES CLIMBING TO 13 PERCENT IN JANUARY IS A "POLITICAL" PROBLEM WHICH REQUIRES MINISTERS TO ENSURE THERE IS NO REDUCTION OF BREATHING SPACE FOR BRITISH LEYLAND UNTIL THERE HAS BEEN AN OPPORTUNITY FOR ITS RESTRUCTURING TO TAKE EFFECT.

3. DURING THE PAST FEW DAYS THE UK CAR INDUSTRY TEAM HAS RETURNED FROM TOKYO AND REPORTED TO TRADE SECRETARY DELL ON THE MEETINGS THERE. GRAY TOLD US THAT PRIVATE ASSURANCES WERE OFFERED BY JAPANESE MANUFACTURERS NOT TO SIGNIFICANTLY INCREASE THEIR UK MARKET SHARE, BUT THE DEGREE OF CERTAINTY AND COMMITMENT WAS LESS THAN THAT

GIVEN LAST YEAR WHEN JAPAN TOOK 10.6 PERCENT OF UK MARKET. AT HIS OWN REQUEST, THE JAPANESE AMBASSADOR CALLED ON DELL YESTERDAY TO DISCUSS THE PROBLEM. APPARENTLY, NEITHER OF THESE TWO DEVELOPMENTS HAS MITIGATED THE GOVERNMENT'S CONCERN THAT SOMETHING NEEDS TO BE DONE TO

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AVOID JAPANESE IMPORTS FROM GETTING OUT OF CONTROL.

4. DURING THE DISCUSSION WITH GRAY HE MADE IT CLEAR THAT THE UK UNDERSTANDS THE SERIOUSNESS OF TAKING ANY ACTION AGAINST A PRODUCT LIKE CARS FROM A MAJOR PRODUCER. "CARS ARE A TORCH." THINKING AHEAD, GRAY OFFERED HIS VIEW THAT IT MIGHT BE WISER IF WASHINGTON DOES NOT SEND A MESSAGE AT THE PRESENT TIME SINCE THIS MIGHT BE MORE COUNTER-PRODUCTIVE THAN HELPFUL. HE SAID

THE UK IS FULLY AWARE OF U.S. VIEWS ON THIS SORT OF
SITUATION AND, IN CASE THERE COULD BE ANY DOUBT, HE
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WOULD CONVEY THE E/C MINISTER'S EXPRESSIONS OF U.S.
CONCERN TO PLIATZKY AND DELL WHEN THIS MATTER IS DIS-
CUSSED FEBRUARY 15.

5. IN RESPONSE TO ONE QUESTION ON WHAT OPTIONS ARE
BEING CONSIDERED, GRAY SAID THEY ARE BASICALLY LOOKING
FOR WAYS TO DO SOMETHING, BUT WITH MINIMUM DAMAGE. IN
DISCUSSING POSSIBLE STEPS, HE LEFT THE IMPRESSION THAT
SERIOUS THOUGHT IS BEING GIVEN TO INVOKING SOME ASPECT
OF THE SAFEGUARD PROTOCOL CONTAINED IN THE 1962 UK -
JAPAN "TREATY OF COMMERCE, ESTABLISHMENT AND NAVIGA-
TION."

6. FYI, THIS PROTOCOL PROVIDES THAT IF EITHER PARTY
FINDS A PRODUCT IS BEING IMPORTED "UNDER SUCH CONDI-
TIONS AS TO CAUSE OR THREATEN SERIOUS INJURY ... THE
GOVERNMENT MAY ... GIVE NOTICE ... AND THE TWO GOVERN-
MENTS SHALL ENTER INTO CONSULTATIONS NO LATER THAN SEVEN
DAYS AFTER SUCH NOTICE IS GIVEN ..." IF NO SOLUTION IS
FOUND WITHIN 30 DAYS AFTER THE START OF CONSULTATIONS,
THE IMPORTING COUNTRY "MAY TAKE ACTION TO PREVENT OR
REMEDY THE INJURY ... PROVIDED THAT SUCH ACTION IS NOT
TAKEN LIGHTLY ... IS LIMITED TO THE SPECIFIC PRODUCTS
IN RESPECT OF WHICH IT IS NECESSARY ... AND SHALL BE
DISCONTINUED IMMEDIATELY ... WHEN THE SITUATION WHICH
GAVE RISE TO THE ACTION IS RECTIFIED." THERE IS ALSO A
PROVISION THAT ACTION CAN BE TAKEN ANY TIME AFTER CON-
SULTATIONS HAVE BEGUN "IN CRITICAL CIRCUMSTANCES."
COMPLETE PROTOCOL BEING MAILED.

7. COMMENT. IT IS NOT YET CLEAR WHAT STEPS THE UKG
WILL TAKE. OPTIONS RANGE FROM (A) A SIMPLE STEPPING UP
OF EXISTING PUBLIC AND PRIVATE PRESSURE THAT MIGHT LEAD
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TO THE ASSURANCES AND PUBLICITY BEING SOUGHT TO (B)
OFFICIALLY CALLING FOR CONSULTATIONS UNDER THE BILATERAL
TREATY (WHICH HAS NEVER BEEN DONE BEFORE) AND THEN
POSSIBLY (C) INTRODUCING IMPORT CONTROLS. GIVEN THE
SENSITIVITY SURROUNDING GATT ARTICLE XIX AND THE CER-
TAIN NEGATIVE REACTION TO INVOKING IT AND THE POSSIBLY
LESS INFLAMMATORY OPTIONS AVAILABLE UNDER THE BILATERAL

TREATY, IT DOES NOT SEEM LIKELY THAT AN ARTICLE XIX ACTION WILL SERIOUSLY BE CONSIDERED. WE BELIEVE THE MOST PROBABLE UK ACTION IN THE NEAR FUTURE IS A STEPPING UP OF PRESSURE ON JAPAN, COMBINED WITH A VERY CAREFUL WATCH ON JAPANESE CAR SALES DURING THE NEXT MONTH OR TWO. WE WOULD NOT, HOWEVER, EXCLUDE MORE AGGRESSIVE BRITISH ACTIONS, POSSIBLY SAFEGUARD ACTION UNDER THE BILATERAL TREATY.

7. DESPITE GRAY'S RECOMMENDATION THAT WASHINGTON NOT ENTER DIRECTLY INTO THIS AFFAIR, WE THINK SERIOUS CONSIDERATION SHOULD BE GIVEN TO HIGH-LEVEL APPROACHES TO THE BRITISH GOVERNMENT.

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